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ABSTRACT

The American Association of Cosmetology Schools (AACS) criticized the General Accounting Office (GAO) report which stated that federal student financial aid was being spent to train proprietary school students for oversupplied occupations. The GAO defended the following findings: (1) an occupation-specific training program that lacked a general education component made proprietary school graduates less versatile and limited their opportunities for employment beyond their field; (2) proprietary school graduates were less motivated to relocate; (3) there were labor supply oversupplies, since its research went beyond the "Occupational Outlook Handbook" to compare job openings expected with the corresponding number of postsecondary graduates who completed training programs in 12 states; (4) employment directly affected a graduate's ability to repay loans, and default rates were an important gauge of the quality and usefulness of a postsecondary education program; (5) state-level data provided a better approximation of employment levels at local levels than did national data; (6) state data confirmed an oversupply of respiratory therapists; (7) barbering/cosmetology and electrical/electronics occupations were oversupplied; and (8) the Student Right-to-Know Act should be amended to ensure that prospective proprietary students have access to employment and earnings projections. (An attachment describes how the demand for proprietary school graduates was computed.) (YLB)

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The Honorable Christopher Shays
Chairman, Subcommittee on Human Resources
Committee on Government Reform and Oversight
House of Representatives

Subject: Proprietary Schools: Analysis of Comments Received From an Association of Schools

Dear Mr. Chairman:

Title IV of the Higher Education Act of 1965 as amended (HEA) established financial aid programs for students attending institutions of higher education.[1] The federal government annually invests billions of student financial aid dollars to help fund occupation-specific training at proprietary (for-profit) schools. In June 1997, in response to your concerns about title IV funds financing proprietary school training in fields with insufficient job demand, we reported that federal student financial aid was being spent to train proprietary school students for oversupplied occupations.[2]

On August 20, 1997, the President of the American Association of Cosmetology Schools (AACS) wrote to you about certain findings in our report. You asked us to address AACS' comments and respond to you. AACS criticized our report as misleading, inaccurate, and based on a flawed methodology. It also commented that our recommendations reflect a lack of understanding of HEA's requirements and that implementing our recommendations would result in a redundant requirement.

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[1]Title IV programs include the Federal Family Educational Loan Program and the William D. Ford Direct Loan Program, both of which offer subsidized and unsubsidized Stafford loans and Parent Loans for Undergraduate Students, the Federal Pell Grant Program, and the Federal Perkins Loan Program.

[2]Proprietary Schools: Millions Spent to Train Students for Oversupplied Occupations (GAO/HEHS-97-104, June 10, 1997).

CE 074 966

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In summary, we reviewed AACS's comments and considered them in the context of our work. We do not agree with AACS' comments that our report is misleading, inaccurate, and based on a flawed methodology. Our findings and recommendations reflect the need to ensure that students have access to and get important information on local job labor market conditions. We believe that implementing our recommendations would help ensure that prospective proprietary school students have the information they need to make better and more informed educational decisions and may help them to avoid spending federal student aid to study for oversupplied occupations. The following responds to AACS' major comments.

CHALLENGES FACING PROPRIETARY SCHOOL GRADUATES

AACS took issue with the part of our report that stated that proprietary school graduates face unique challenges in the labor market, saying that these challenges are no different than those facing other postsecondary graduates. It asserted that few college graduates can earn enough to allow them to move to other cities with better employment opportunities. AACS also said that a graduate's ability to move to different cities in search of employment is virtually identical, regardless of the type of institution from which a student graduates. In addition, AACS said that we did not explain or give a basis for the statement that proprietary school graduates are less mobile and thus depend more on local labor market conditions, and it seriously doubted that any reliable authority can support the statement.

Although we agree with AACS that all postsecondary graduates face challenges in the labor market, most proprietary school graduates face unique challenges. An occupation-specific training program (such as that generally provided by proprietary schools) that lacks a general education component makes graduates less versatile than their counterparts who complete degree-granting programs. This reduced versatility could limit proprietary school graduates' opportunities for employment beyond the field for which they have trained.

We reported that proprietary school graduates are less motivated–not necessarily less able–to relocate than graduates of degree-granting programs, making them depend more on local labor markets and therefore more susceptible to unemployment. We based this information on our discussions with several labor market experts, state employment specialists, and officials at

the Department of Labor's Bureau of Labor Statistics (BLS). A journal of economic research published similar conclusions in 1990.[3]

AACS also stated that starting salaries for postsecondary school graduates are similar, although the lifetime wages of college graduates are higher. This difference in lifetime earnings may motivate college graduates more than proprietary school graduates to relocate long distances to find work.

REFERENCE TO OIG REPORT

In addition to its other comments, AACS noted that we should not have used a management information report issued by the Department of Education's Office of the Inspector General (OIG) because it has serious methodological flaws. AACS stated that our use of this report raises serious questions about the validity of our conclusions.

We limited our use of the OIG report to providing background for our report and to establishing the context for the concerns raised about proprietary school students being trained for oversupplied occupations. We neither evaluated the report nor based our conclusions on information in it.

OCCUPATIONAL OUTLOOK HANDBOOK DESCRIPTION OF TRAINING OPPORTUNITIES

AACS also said that our reporting that cosmetology and other occupations were among those with labor supply surpluses disagrees with the Department of Labor because Labor's 1996-97 Occupational Outlook Handbook states that overall employment of cosmetologists is expected to grow about as fast as the average for all occupations. AACS said that this does not imply a labor surplus and that its members all report that salons are calling them seeking referrals of graduates. AACS said that the credibility of our report was undermined because AACS believes that the outlook for some occupations we classified as oversupplied is reasonably good.

We agree that the description of cosmetology published in the 1996-97 Occupational Outlook Handbook implys no labor surplus. The handbook's occupational demand projections and accompanying narrative refer to

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[3]Axel Borsch-Supan, "Education and its Double-Edged Impact on Mobility," Economics of Education Review, Vol. 9, No. 1 (1990), pp. 39-53.

"employment."[4] The handbook relies heavily on BLS' national projections of job openings. It uses phrases such as "good or favorable opportunities" to mean that job openings compared with job seekers are about the same and "may face competition" to mean job openings may outnumber job seekers. These descriptions of supply and demand reflect the judgment of economists in the BLS Office of Employment Projections, not a numerical comparison of job openings with training program graduates.

Our report went a further step, however. We compared job openings expected ("employment") with the corresponding number of postsecondary graduates who completed training programs, such as cosmetology, in 12 states. (See enclosure for a description of our methodology.) We found that the number of barbering/cosmetology graduates in 1994-95 exceeded the number of projected job openings by more than 100 percent in 10 of the 12 states we studied.

In addition, Occupational Projections and Training Data, the statistical and research supplement to the handbook, ranks the relative employment prospects of occupations–including barbers and cosmetologists. It ranked barbers as having "very low" projected employment growth, annual job openings due to growth and replacement needs, weekly earnings, and a "high" percentage of part-time employment. It ranked hairdressers, hairstylists, and cosmetologists as having "low" projected employment growth and annual job openings due to growth and replacement needs, "very low" weekly earnings, and a "very high" percentage of part-time employment. Therefore, even without accounting for the number of students expected to graduate from cosmetology training programs, BLS did not view the employment prospects for barbers/ cosmetologists as favorable.

We discussed our approach for identifying oversupplied occupations with BLS officials in the Office of Employment Projections whose work was used to prepare the handbook. They explained that although BLS has available national labor demand data, using state data would be more appropriate for our analysis. BLS data may show a national occupational need, but such demand may not reflect demand in a particular labor market.

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[4]The handbook also states that the competition for jobs and customers may be greater at higher paying salons because applicants compete with a large pool of licensed and experienced cosmetologists.

DEFAULT RATES FOR PROPRIETARY SCHOOL STUDENTS

AACS took issue with the part of our report showing that employment directly affects a graduate's ability to repay loans and that default rates are an important gauge of the quality and usefulness of a postsecondary education program. It said that employment is only one factor that affects the ability of a graduate to repay student loans and that proprietary institutions serve what could be called a high-risk population. AACS criticized our comparison of proprietary schools' 21.1 percent default rate in fiscal year 1994 with rates of 13.7 and 6.5 percent for 2-year and 4-year nonprofit colleges, respectively. AACS said that it is unreasonable to expect a proprietary school that serves a high-risk population to compare favorably on default rates with other institutions. In addition, high default rates at proprietary schools reflect the low income of students rather than low employment opportunities for graduates, AACS said.

Although we agree that other factors may contribute to graduates defaulting on student loans, our report focused on the employment prospects of proprietary school students in the specialty for which they had been trained. Preparing students for gainful employment in recognized occupations is a federal statutory requirement for proprietary schools that participate in federal student financial aid programs. Student borrowers who graduate and cannot obtain a suitable job and income are less likely to be able to repay their student loan obligations than those who do find jobs.

Federal law governing eligibility to participate in federal student aid programs does not distinguish between proprietary schools and other institutions in setting default rate thresholds, regardless of the at-risk population schools may serve. Therefore, generally all schools must follow the same requirements.[5] In those instances in which a school may have default rates exceeding the statutory threshold and it believes that exceptional mitigating circumstances (such as serving high-risk students) exist, it may ask the Secretary of Education for relief, and the Secretary can waive the requirement.

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[5]Historically black colleges or universities, tribally controlled community colleges, and Navajo Community Colleges are statutorily exempt from default rate thresholds until July 1, 1998.

LABOR MARKET INFORMATION USEFUL

Although AACS noted that students' access to labor market information is critically important, it said that providing incorrect information may be worse than providing no information. It also said that an accrediting agency must have standards on "success with respect to student achievement in relation to its mission, including, as appropriate, consideration of course completion, State licensing examination, and job placement rates." AACS said that the National Accrediting Commission of Cosmetology Arts and Sciences (NACCAS) requires that all institutions it accredits provide students, before enrollment, placement rates for that particular institution and certain other information about employment prospects that far exceed federally mandated guidelines.

We agree that providing prospective students accurate information about their employment prospects is important. That is why we recommended that the Congress and the Secretary of Education take steps to ensure that prospective students receive information about their employment prospects. We commend NACCAS for requiring those institutions that it accredits to provide this kind of information to prospective students.

LOCAL LABOR MARKET CONDITIONS

AACS claims that the state-level information we used was flawed. It questioned our rationale that state-level statistics are more reliable than national statistics and for not using Labor's analyses. AACS also said that it strongly questioned our use of state-level data on the basis of its experience with cosmetologists. It said that AACS board members, located in 9 of the 10 states that we reported with a surplus of cosmetology graduates, said that none of the schools that they operate is experiencing difficulty finding immediate employment for their graduates.

Although we used local labor market conditions in our analyses because they best indicate an individual's employment opportunities, we did not say that such statistics are more reliable than national statistics. Instead, according to BLS officials, state-level data provide a better approximation of employment opportunities at local levels than do national data because job openings may not occur in the same geographic area where training takes place. We found that proprietary school graduates are less motivated to relocate than graduates of degree-granting programs, making them depend more on local labor markets and therefore more susceptible to unemployment. Labor market experts advised us that some schools, despite low labor demand projections, manage to place high proportions of their graduates. They did not believe that this

condition necessarily invalidated our findings or our recommendation that prospective students be provided with better information on labor market conditions.

RESPIRATORY THERAPISTS

AACS said that our report had other examples of seemingly erroneous conclusions. For example, it said that the Occupational Outlook Handbook states that respiratory therapy has a much faster than average growth rate because of the substantial growth in the middle-age and elderly population. Florida and Arizona are two of the 12 states we studied. AACS questioned how these two states (characterized by AACS as having large elderly populations) could have an oversupply of respiratory therapists, while Washington (characterized by AACS as a state not known for having a large elderly population) has no shortage.

In the case of respiratory therapists in Arizona, Florida, and Washington, we evaluated their employment prospects by comparing the projected job openings with the number of graduates being trained for the occupation and found an oversupply of graduates in Florida and Arizona. The Occupational Projections and Training Data supplement ranks the annual average job openings for respiratory therapists, due to growth and replacement, as very low. After reviewing a draft of our analysis, Arizona state officials commented that the ratio of graduates to respiratory therapist jobs in Arizona was 3 to 1. Florida state officials provided us with more data confirming our finding that the state is oversupplied with respiratory therapists. We also provided preliminary results to Washington state officials, but they did not comment on our results.

STUDENTS USING AID TO STUDY BARBERING/COSMETOLOGY AND ELECTRICAL/ELECTRONIC TECHNOLOGY

AACS stated that because federal student financial aid for cosmetology and electrical/electronics accounts for two-thirds of the funds being spent on oversupplied occupations and if our reporting these two occupations as oversupplied is wrong as AACS asserted, then our report's conclusions and recommendations must be rejected. AACS said that two-thirds of the students receiving federal student financial aid funds are training for occupations that have no oversupply.

We have no evidence that these occupations are not oversupplied and have no basis on which to revise our report or its conclusions. In our report, we compared job openings with the graduates of training programs and found that

barbering/cosmetology was oversupplied in 10 states and electrical/electronic technology was oversupplied in 7 states. Furthermore, the Occupational Projections and Training Data supplement shows that for 1994 to 2005 the annual average openings for barbers and cosmetologists are expected to be "very low" or "low." The same supplement also shows that the annual average openings for electrical and electronic technicians and technologists are expected to be "low."

STUDENT RIGHT-TO-KNOW ACT

AACS said that our recommendation to amend the Student Right-to-Know Act would only further complicate already complicated federal regulations for proprietary institutions participating in federal student financial aid programs. It noted that the HEA already gives the Department of Education authority to require accrediting organizations to address the issue of providing labor market conditions to prospective students. It said that our recommendation appears to be based on a lack of understanding of HEA's current requirements and the role of accrediting organizations.

In our report, we recommended that the Secretary of Education identify and take appropriate action to ensure that prospective proprietary students have access to employment and earnings projections relevant to their chosen training field and local area. Although the Department has the authority to require accrediting organizations to address the issue of providing labor market information to prospective students, the Department has not exercised this authority in the past. Our recommendation to the Congress to expand the Student Right-to-Know Act to require proprietary schools to report training-related job placement rates for recent graduates would help ensure that prospective students receive information about their employment prospects that may not now be provided to them.

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We are sending copies of this correspondence to the Chairman and Ranking Minority Member of the House Committee on Education and the Workforce and the Senate Committee on Labor and Human Resources, the Secretaries of Education and Labor, and other interested parties.

If you have any further questions about our report, please call me or Gene Kuehneman, senior economist, at (202) 512-7014.

Sincerely yours,

Cornelia M. Blanchette

Cornelia M. Blanchette
Associate Director, Education
and Employment Issues

Enclosure

COMPUTING THE DEMAND FOR PROPRIETARY SCHOOL GRADUATES

Although many proprietary institutions teach job skills that are ubiquitously in demand, the supply of proprietary school graduates exceeds the job openings for their skills in many of the states that we studied. This highlights an important distinction between job openings (labor demand) and training program graduates (labor supply). We numerically compared the supply of new graduates in an occupation with the projected demand for new employees in an occupation to determine which occupations, if any, are oversupplied.

We used a tool, the Units of Analysis matrix, developed by the National Occupational Information Coordinating Committee to determine which instructional programs were linked to the occupations for which we had obtained job opening projections. The matrix defines over 200 clusters of occupational categories. Each cluster consists of one or more job categories that have similar duties and training requirements. In addition, each of the roughly 1,000 instructional programs identified in Education's Integrated Postsecondary Education Data System is linked to an occupational cluster. By comparing a cluster's projected job openings with the new graduates trained for jobs in that cluster, we could determine which occupations had insufficient demand. We defined insufficient demand as two or more graduates for each projected job opening in an occupation.

The matrix classifies occupational clusters by the strength and directness of the link between training and occupational employment. Some cluster occupations have specific training programs that lead directly to employment in the occupation. For these occupations, someone's entering the occupation without having received the related training is unlikely. Nor is it likely that the related training would prepare someone for employment in a different cluster of occupations. For other occupational clusters, the link between training and employment is less direct: Either the skills mastered are more transferable or the occupation draws new employees from a wide variety of sources or both.

After discussing the issue with a matrix expert, we restricted our analysis to the clusters of occupations with the most direct link between training and employment because such links for other clusters are weak. For example, the matrix identifies four educational programs that lead to employment in barbering/cosmetology: cosmetic services, barber/hairstylist, cosmetologist, and electrolysis technician. We added the number of graduates that completed their studies in these programs. The job openings in barbering/cosmetology comprised four occupations: barber, hairdresser, manicurist, and shampooer. We added the job openings for the four occupations and compared this with the total postsecondary graduates in the four educational programs. If the number of graduates exceeded the number of openings by 100 percent, or 2 to 1 or more, we classified the occupation as oversupplied.

In Florida, we found 4,704 graduates in the four educational programs leading to barbering/cosmetology in school year 1994-95. These graduates exceeded the 2,193 projected openings in the four barbering/cosmetology occupations by more than 100 percent; therefore, we identified barbering/cosmetology as oversupplied in Florida. As this example shows, Florida has many projected opportunities in cosmetology. However, as we compared the number of opportunities available with the number of graduates competing for these opportunities, using the criteria of two or more graduates for every projected job opening as oversupplied, an oversupply of cosmetology graduates is evident.

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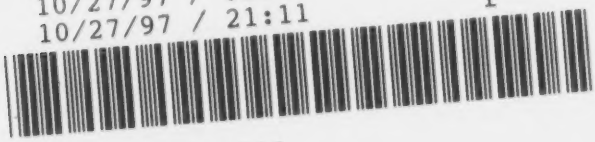

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